

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2015

Volume 8 Issue 178

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	75% Long VXX	Short

Tonight's Research Points

- The 10-day high on Tuesday is not necessarily a good thing for the bulls.
- The CBI fell to 2 – the first neutral reading since the August spike.

Short-term Outlook

The Bottom Line

The market is still overbought and expectations are again for some downside. Bears appear to have the edge over the next few days.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 14, 2015	Lowest volume in 10. SPX >10ma < 200	1-5 days	Bearish			
September 9, 2015	QE Buying Power System short signal	1-6 days	Bearish			
Active - Long Term						
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
August 31, 2015	NASDAQ leading SPX	int term	Bullish			
August 21, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

The market had a nice move up on Tuesday. The SPX, NASDAQ and Russell 2000 each rose between 1.1% and 1.3%. Breadth was strong as the NYSE Up Issues % came in at 69% and the Up Volume % was 81%. Total NYSE volume rose a little from Monday's very low level.

SPX closed at a 10-day high on Tuesday. New short-term (and intermediate-term) highs will sometimes get traders excited. When the market is in long-term downtrend mode, this excitement is often misplaced. Way back in a blog post on 4/3/09 I showed a number of "systems" that looked to sell short when the SPX made X-day highs but was below the 200ma. I have updated the results table of those little systems below.

SPX closes < 200ma but at an X day high. Sell short on close. Cover on close < Y day moving average. \$100k/trade. 2002 - present.													
X	Y	All: Net Profit	All: Total Trade	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	5	40,409.63	95	65	30	68.42	1,858.78	9,455.49	-2,680.37	-9,743.92	0.69	1.50	425.36
10	5	50,712.14	51	38	13	74.51	1,829.85	8,883.33	-1,447.86	-4,097.68	1.26	3.69	994.36
10	10	70,535.14	44	31	13	70.45	2,972.00	9,986.13	-1,661.29	-4,893.07	1.79	4.27	1,603.07
15	5	41,208.56	41	32	9	78.05	1,644.27	5,245.02	-1,267.57	-4,058.40	1.30	4.61	1,005.09
15	10	48,342.03	34	25	9	73.53	2,410.28	9,986.13	-1,323.90	-1,887.42	1.82	5.06	1,421.82
20	5	31,244.17	32	24	8	75.00	1,739.88	5,245.02	-1,314.12	-4,058.40	1.32	3.97	976.38
20	10	32,671.12	25	18	7	72.00	2,265.99	9,986.13	-1,159.53	-1,870.88	1.95	5.03	1,306.84

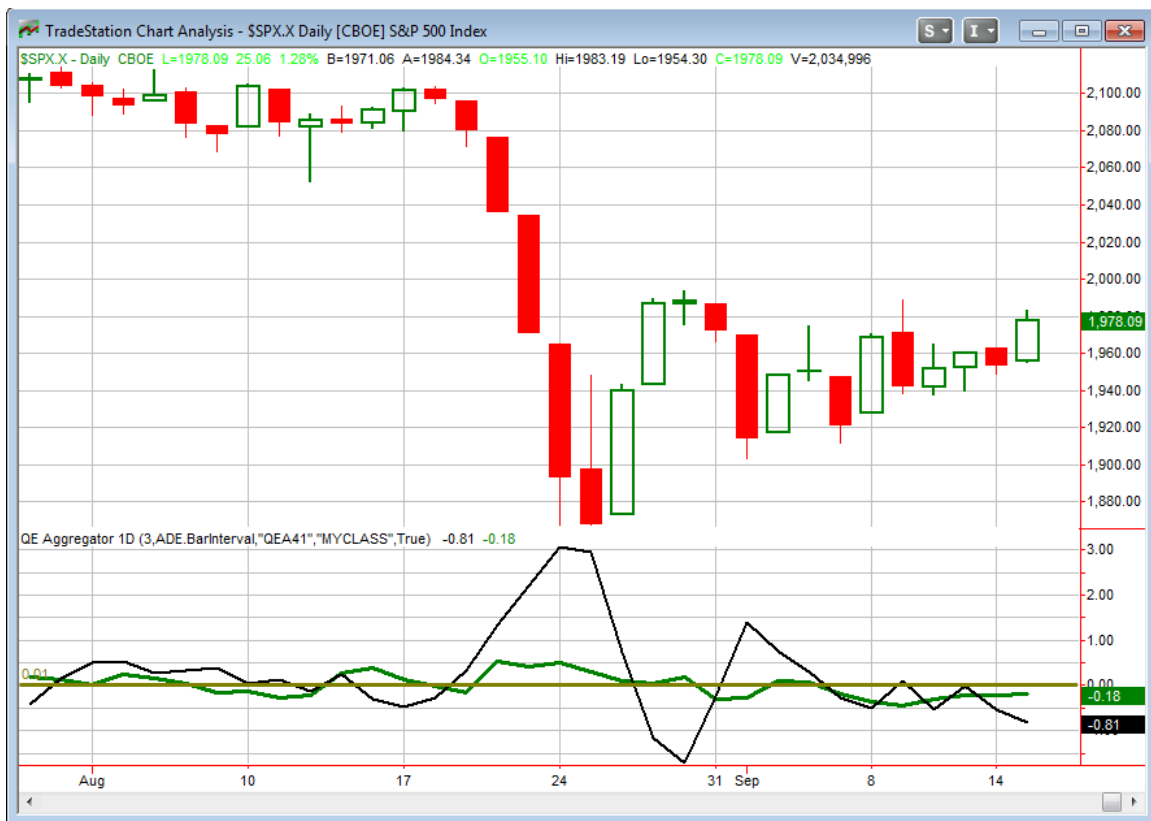
Stats here are solid across the board. The Win Rate, Profit Factors, and Average Trade stats all suggest a good chance at market dip. Hitting new short-term highs is generally not something that bulls should get excited about while the long-term trend appears down.

I also looked at time-based exits rather than the system exits used above. While the stats remained fairly bearish, the profits curves were not terribly consistent on a time basis.

You'll also note that the systems above utilize a similar idea (short overbought and exit upon reversion) to the QE Buying Power System, which is currently on short signal. So I did not add anything to the Active List tonight. But the lesson of the above studies does not change. The new high has the market overbought and the trend at this point still appears down. So it is probably easier to make money on the short side than the long side right now.

Another indicator to note is the Quantifiable Edges Capitulative Breadth Index (CBI). As you will see in the Catapult & CBI section below, it dropped to 2 on Tuesday. After jumping up to 17 on August 21, and eventually hitting a record a couple of trading days later at 73, this is the first day in which it has managed to close with a neutral reading of 3 or lower. For me that means it is now safer to take on short positions than it was with a high CBI.

I have updated the [Aggregator](#) chart below.



Once again tonight the green Aggregator Line held below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed short at the close.

Expectations are currently set to remain bearish on Wednesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1941.66 on Wednesday. That is 1.8% below Tuesday's close. So for SPX to move from overbought to oversold on Wednesday it would need to close down at least 1.8%.

The studies are favoring the short side, that market is overbought, and the CBI is no longer bullish. This all suggests a downside edge. I took some small short exposure at the close on Tuesday. With the upcoming Fed Day Thursday I will not look to increase this exposure at all on Wednesday. I'll keep it light at this point with Fed Day risk readying to creep in.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/14– neutral

The intermediate-term outlook was last updated in the 9/8/15 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MON 1/3 @ \$89.42 limit (not filled)

QCOM 1/3 @ \$53.88 limit (not filled)

Broad Market Large Cap CBI – 2

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
PG(1/3)	8/21/2015	\$73.55	\$69.45	-5.57%		<i>sell on open</i>
PG(1/3)	8/24/2015	\$68.57	\$69.45	1.28%		<i>sell on open</i>
PG(1/3)	8/25/2015	\$69.14	\$69.45	0.45%		<i>sell on open</i>
SPY(1/4)(s)	9/15/2015	\$198.46	\$198.46	0.00%		shorted at close

Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the [QE Trade Ideas Results Sheet](#). It can be downloaded from the website at any time.

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